

Policy Section:	6. Finance & Corporate Services
Policy Name:	Depreciation
Classification:	Public – Council Policy
Adopted:	17 December 2019
Frequency of Review:	Biennial
Last Review:	October 2019
Next Review Due:	October 2021
Responsible Officer(s):	Manager, Finance & Corporate Services
Policy and Code of Practice Manual File Ref:	CC10/2601
Council File Reference:	CR19/67936
Legislation Authority:	AASB 116 Property, Plant & Equipment AASB 13 Fair Value Measurement AASB 136 Impairment of Assets AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
Related Policies and Codes:	N/A
Related Procedures:	N/A

1. INTRODUCTION

- 1.1 An explicit set of policies and procedures is a necessary tool for sound financial management providing the following benefits:
- (a) **Public accountability and transparency** – Policies and procedures publicly document the Council's position on which it will base its decisions. They demonstrate the Council's commitment to sound financial management and establish transparency for audit purposes;
 - (b) **Ensuring a considered approach** – The formal adoption of carefully documented policies and procedures helps ensure that the Council's position on each issue has been properly considered, having regard to alternative approaches and the wider policy and statutory context;

DEPRECIATION POLICY

- (c) **Consistency of decision making** – By adopting clear Council policies and procedures a consistent basis for decision-making over time is established. While the Council can make a decision contrary to its adopted policy, it needs a deliberate decision to do so which helps to ensure that proper consideration has been applied;
- (d) **Clear guidance for staff** – Explicit policies and procedures set out the required approach, responsibilities and processes for staff to properly administer the financial business of the Council in accordance with its wishes and consistent with statutory requirements and sound financial management practices. This in turn protects staff from allegations of financial mismanagement as long as the policies and procedures are followed.

2. PURPOSE

- 2.1 The purpose of this Policy is to set out the methodology used by Council in determining and calculating depreciation for the purposes of meeting its financial reporting requirements. Financial reporting in the context of this policy includes but is not restricted to the preparation and presentation of the Annual Financial Statements, the Annual Budget and the Long Term Financial Plan.
- 2.2 This Policy has been established to ensure that:
 - (a) Asset values, and therefore depreciation, are recorded in accordance with Australian Accounting Standards;
 - (b) Users have an increased level of confidence in the asset related financial information provided by the Council.

3. PRINCIPLES

- 3.1 Local Government is very asset centric, having a much greater quantum of assets relative to income than any other level of government. Much of this is represented by assets such as roads, footpaths, parks and buildings used by the community.
- 3.2 Australian Accounting Standard AASB 116 *Property, Plant and Equipment* requires that the depreciation method used for the systematic allocation of the depreciable amount of assets over their useful life shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Council.

4. DEFINITIONS

Asset Class – the categories of assets used by the Council for the purposes of financial reporting of assets.

Carrying Amount – the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment loss.

Depreciable Amount - is the cost of an asset, or other amount substituted for cost, less its residual value

Depreciation - the systematic allocation of the depreciable amount of a physical non-current asset over its useful life

Residual Value - is the estimated amount that an entity would currently obtain from disposal of an asset after deducting the estimated costs of disposal, if the asset was already at the age and in the condition expected at the end of its useful life

Useful Life - is the period over which an asset is expected to be available for use by an entity

5. POLICY STATEMENTS

5.1 Depreciation

- 5.1.1 Australian Accounting Standard AASB 116 (Property, Plant and Equipment) states that *'Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately'* (Clause 43).
- 5.1.2 In accordance with AAS 116, non-current assets will be depreciated at the component level, in accordance with the asset component structure outlined in *Policy 6.9 – Asset Capitalisation Policy*.
- 5.1.3 Depreciation of an asset will commence from the time the asset is available and ready for its intended purpose. In the case of donated assets or assets received free of charge, depreciation will commence from the time of handover of such assets to Council.
- 5.1.4 Depreciation of an asset will cease at the end of its useful life; when no future economic benefits are expected from its use; upon disposal; or when the residual value is equal to or greater than the asset's carrying amount.
- 5.1.5 Depreciation will be generated on a quarterly basis.

5.2 Depreciable Amount

The depreciable amount of an asset will be allocated over its useful life in accordance with the depreciation method.

5.3 Residual Value

The residual value of an asset shall be reviewed at the end of each financial year. Where the residual value requires change, an adjustment shall be reflected in the asset's depreciable amount.

5.4 Useful Life

- 5.4.1 The useful life of an asset will be reviewed at the end of each financial year.
- 5.4.2 The estimation of the useful life of an asset is a matter of judgement based on the experience of the Council.
- 5.4.3 The useful life of an asset may be shorter than its economic life.

5.5 Depreciation Method

- 5.5.1 Straight-Line depreciation is the depreciation method used by Council, on the basis that the economic benefits provided by the assets are generally used in a consistent manner throughout the useful life of the asset.
- 5.5.2 The depreciation method applied to Council assets shall be reviewed at the end of each financial year, in accordance with AASB116.

5.6 Asset Revaluations & Accumulated Depreciation

- 5.6.1 Revaluations will be undertaken with sufficient regularity to ensure that the carrying amount of an asset does not differ materially from its fair value at the reporting date.
- 5.6.2 If an asset is revalued, the entire class of assets to which the asset belongs shall be revalued, in accordance with AASB116.
- 5.6.3 If an asset is revalued, the gross amount of accumulated depreciation is restated in proportion to the gross carrying amount of the asset such that its carrying amount equals its revalued amount.

5.7 Asset Impairment

- 5.7.1 Assets subject to depreciation will be reviewed for impairment at the end of each financial year.
- 5.7.2 The tests applied to determine whether an asset is impaired, and the subsequent accounting treatment, will be undertaken in accordance with AASB 136 *Impairment of Assets*.

5.8 Fair Value Measurement

Assets are required to be fairly valued by using market based measurement techniques in accordance with AASB 13 *Fair Value Measurement*.

5. REVIEW AND EVALUATION

The effectiveness of this Policy will be reviewed on a biennial basis.

The Chief Executive Officer will report to Council on the outcome of the evaluation and if relevant make recommendations for amendments, alteration or substitution of a new Policy.

The Policy will not be altered or substituted so as to affect a process already commenced.

6. FURTHER INFORMATION

Further information about this Policy can be obtained by:-

Telephone: 8522 9211
Email: council@gawler.sa.gov.au
Appointment: Town of Gawler Administration Centre, 43 High Street, Gawler East.
Letter: PO Box 130, Gawler SA 5118

7. AVAILABILITY OF POLICY

The Policy is available for inspection during ordinary business hours at the Council principal office, Town of Gawler Administration Centre 43 High Street, Gawler East or is available on the Council website at www.gawler.sa.gov.au.

A copy of this Policy will be provided to interested parties upon request, for a fee as contained in the Register of Fees and Charges.